

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00 PA-02 PRS-01

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R 191233Z JAN 76

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 9793

UNCLAS TEL AVIV 0450

E.O. 11652: N/A

TAGS: ECON, EFIN, AFSP, IS

SUBJECT: ISRAELI INFLATION IN 1975

1. ISRAEL'S CONSUMER PRICE INDEX (CPI) ROSE 23.5 PERCENT  
IN 1975 COMPARED TO 56.2 PERCENT INCREASE DURING PREVIOUS  
YEAR. AVERAGE LEVEL CPI IN 1975 WAS 39.3 PERCENT HIGHER THAN  
1974 WHICH WAS 39.7 PERCENT HIGHER THAN 1973.

2. RHYTHM OF INFLATION DURING YEAR WAS INCREASE AT MODERATE  
RATE IN FIRST FIVE MONTHS FOLLOWED BY A SLIGHT DECREASE IN  
JUNE AND VIRTUAL LEVELING OF IN JULY AND AUGUST. INFLATION  
INCREASED IN SEPTEMBER - NOVEMBER BUT ROSE ONLY SLIGHTLY  
IN DECEMBER. ALMOST HALF CPI'S INCREASE DURING YEAR OCCURRED  
IN THE LAST QUARTER, AFTER THE TEN PERCENT DEVALUATION AND  
TAX INCREASES OF SEPTEMBER 28.

3. PRESS HAS REPORTED ESTIMATES OF TEN PERCENT COST-OF-LIVING  
ALLOWANCE (COLA) TO A MAXIMUM OF IL 400 AS RESULT OF INCREASES  
CPI. COLA WILL EQUAL 70 PERCENT OF DIFFERENCE AVERAGE CPI  
DECEMBER, 1975, THROUGH FEBRUARY, 1976 COMPARED TO  
APRIL-JUNE, 1975.

4. COMMENT: PRICE DEVELOPMENTS IN 1975 ILLUSTRATE TRADITIONAL  
INFLATION CYCLE IN A SMALL, TRADE ORIENTED

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TIONAL INFLATION CYCLE IN A SMALL, TRADE ORIENTED

COUNTRY. TO SAFEGUARD EXPORT COMPETITIVENESS AND RESTRAIN IMPORTS, CURRENCY MUST BE DEVALUED ROUGHLY IN LINE WITH INTERNAL INFLATION. HOWEVER, DEVALUATIONS CAUSE INCREASE IN PRICES WHICH IN TURN TRIGGERS INCREASED INCOME AND MORE INFLATION.

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## Message Attributes

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